

PN-ABG-144  
93283

# **UNITED STATES SEED ACT ASSISTANCE STRATEGY**

**FOR**

**SLOVAKIA**



**1993-1995**

**Submitted by American Embassy Bratislava  
Approved, June 30, 1993**

**UNITED STATES SEED ACT**

# **ASSISTANCE STRATEGY**

**for**

# **SLOVAKIA**

**1993 - 1995**

**Submitted by American Embassy Bratislava  
Approved, June 30, 1993**

## **TABLE OF CONTENTS**

<b>POLITICAL AND ECONOMIC OVERVIEW .....</b>	<b>1</b>
<b>Political Situation .....</b>	<b>1</b>
<b>Economic Situation .....</b>	<b>2</b>
<b>Main Macroeconomic Developments .....</b>	<b>2</b>
<b>Main Financial Developments .....</b>	<b>3</b>
<b>Structural Transformation .....</b>	<b>3</b>
<b>SLOVAKIA'S STRATEGIC OBJECTIVES .....</b>	<b>4</b>
<b>Economic Policy Program .....</b>	<b>4</b>
<b>Privatization and Economic Transformation .....</b>	<b>4</b>
<b>Macroeconomic Policy Program .....</b>	<b>5</b>
<b>Democracy, Civil Liberties And Decentralization .....</b>	<b>6</b>
<b>ROLE OF OTHER MAJOR DONORS AND LENDERS .....</b>	<b>6</b>
<b>PRIORITIES OF THE USG ASSISTANCE PROGRAM .....</b>	<b>7</b>
<b>FIRST OBJECTIVE: TRANSFORMATION TO A MARKET ECONOMY .....</b>	<b>8</b>
<b>Privatization and Economic Restructuring .....</b>	<b>8</b>
<b>Strengthening Key Ministries and Institutions .....</b>	<b>8</b>
<b>Creating the Legal and Regulatory Framework .....</b>	<b>8</b>
<b>Restructuring the Power Sector .....</b>	<b>9</b>
<b>Restructuring Major Industries .....</b>	<b>10</b>
<b>Small and Medium-Size Enterprises .....</b>	<b>10</b>
<b>Reducing Environmental Hazards .....</b>	<b>10</b>
<b>Restructuring Agriculture .....</b>	<b>11</b>
<b>Management Education/Training and Participant Training .....</b>	<b>11</b>
<b>Development Of The Financial Sector .....</b>	<b>12</b>
<b>Strengthening Institutions .....</b>	<b>12</b>
<b>Providing Bank Training .....</b>	<b>12</b>
<b>Strengthening Commercial Banks .....</b>	<b>12</b>
<b>Developing Capital Markets .....</b>	<b>12</b>
<b>SECOND OBJECTIVE: STRENGTHEN PLURALISM AND DECENTRALIZATION .....</b>	<b>12</b>
<b>Reinforce Diversity And Independence In The Media .....</b>	<b>12</b>
<b>The Media .....</b>	<b>12</b>
<b>The Judiciary .....</b>	<b>13</b>
<b>Parliament and Political Parties .....</b>	<b>14</b>
<b>Non-Governmental Organizations .....</b>	<b>14</b>

Support The Shift Of Decision-Making To Regions .....	14
SOCIAL SAFETY NET TARGETS .....	14
Health .....	15
Housing Allowances .....	15
PARAMETERS OF THE PROGRAM .....	15

## **UNITED STATES ASSISTANCE STRATEGY FOR SLOVAKIA 1993-1995**

The goal of U.S. policy is to help root Slovakia firmly in the Western economic and political community and to accelerate its transformation toward a market economy and healthy democracy.

### **I. POLITICAL AND ECONOMIC OVERVIEW**

#### **A. Political Situation**

With the breakup of the Czech and Slovak Federal Republic (CSFR) on January 1, 1993, Slovakia became an independent nation for the first time in its history. The country is currently governed by the Movement for a Democratic Slovakia (HZDS) which holds 66 of the 150 seats in Parliament. The HZDS is a minority government which receives support from the opposition SDL (Post-Communist, 28 seats) or SNS (Nationalist, 15 seats) on a case-by-case basis. Along with the Czech Republic, Slovakia held democratic elections in June 1990 and again in June 1992, when the present government came into office.

The new government spent much of its early energies on preparing for Slovak independence and establishing the institutions of a separate state. In October 1992, a new constitution came into being. In February 1993 Michal Kovac, former speaker of the Federal Assembly, and earlier Slovak Minister of Finance, was elected as Slovakia's first President. President Kovac said a top priority of his administration would be to insure that Slovakia's partners were confident the country is developing normal democratic institutions and wants to be a full partner with the West. Many new institutions, such as a Constitutional Court and Central Bank, had to be created from scratch; others, such as the Ministry of Foreign Affairs, had to take on new functions.

The appeal of the past is still evident in Slovakia, where presently only a third of the citizens feel they are better off than before the 1989 Revolution, and where political actors are still learning how to coexist. Slovak politics, in common with much of Eastern Europe, tends toward atomization; there were about 80 political parties at the time of the 1992 elections, and the minuscule right wing is still dividing into even smaller entities. While few Slovaks want to see their country return to political association with the ex-USSR, a surprisingly large minority (about 35%) want their country to pursue a neutral, "go-it-alone" foreign policy.

June 30, 1993

Slovakia's constitution provides for democratic institutions and safeguards for human rights. While some Slovaks of Hungarian nationality have voiced concern that their rights are not fully respected in practice (total population of 560,000), the problems they have pointed out are primarily in the area of the right to use their language in road signs and registration of new-born children. Although some anti-semitism exists in Slovakia, the Government has been making special efforts to insure its Jewish minority -- 3,000 remaining from a prewar population of 77,000 -- maintains a feeling of security. There are about 300,000 Romany in Slovakia, most of whom have little education and a low standard of living. While there is no legally sanctioned discrimination, much of the population takes a negative view of the Romany because of their association with high crime rates and a difference in cultural background.

Slovakia has an independent media. However, there have been tensions in the past year over such issues as control over television and public affairs programming. A number of journalists believe that certain officials would prefer to see a "tame" media, one result of which is self-censorship.

In general, Slovakia exhibits symptoms typical of a country in transition from a dictatorship to a democracy. The transition has not been a clean one. There has been some backsliding, but there have also been corrections of that backsliding in response to pressures both outside and within the political system.

## B. Economic Situation

**1. Main Macroeconomic Developments** - As part of the Czech and Slovak Federal Republic during the period 1990-92, Slovakia's economy showed:

- an overall contraction of GDP by about 25-30 percent. This was about average for the "Northern Tier" countries, but less severe than in the "Southern Tier" of Eastern Europe;
- a reduction in the rate of inflation to about 10 percent by 1992 (lowest in Eastern Europe), owing to a traditional policy of tight monetary control by the Federal central bank and low budget deficits. Thus the CSFR quickly contained the inflationary impulse of its comprehensive price reform of early 1991; and
- a rise in unemployment to about 12 percent by early 1993, much higher than in the neighboring Czech Republic, but about the same or lower than in Hungary and Poland.

June 30, 1993

The economic separation of Slovakia and the Czech Republic in 1993 is likely to result in further contraction of economic activity because of a disruption of previously existing trade and payment relationships between Slovak and Czech enterprises. In 1992 Czech enterprises accounted for almost half of Slovakia's external trade. This disruption -- hopefully temporary -- appears to be a cost Slovakia will have to pay for independence.

**2. Main Financial Developments** - Since independence Slovakia has experienced a severe budget crisis, with the fiscal deficit reaching about 15 percent of GDP during the first quarter of 1993 (after a deficit of about 2.5 percent of GDP in 1992). The GOS budget showed a particularly sharp drop in revenue, on top of an already declining trend of revenue collection from the state-owned enterprise sector since mid-1991. Unless the Ministry of Finance dramatically boosts revenue collection during the remainder of 1993, the deficit is likely to continue to crowd out any net bank lending to enterprises and to drive interest rates to very high levels.

By end-April, 1993 Slovakia seemed to have weathered the foreign exchange market crisis of the first quarter of 1993, which drained about \$200 million of the National Bank's foreign exchange reserves. By tightening domestic credit to commercial banks, and, in turn, from banks to enterprises, the National Bank of Slovakia (NBS) stabilized the foreign exchange during April. The NBS was able to stop the decline in its reserves without devaluation. The GOS will have to react quickly to any new round of exchange market pressures, however, by again restricting domestic bank credit or by devaluing the exchange rate.

**3. Structural Transformation** - Starting with the most heavily state-owned enterprise sector in the CEE region at the end of the 1980s, the former Czech and Slovak Federal Republic made a relatively rapid shift toward a private, market economy. In Slovakia, the private sector's contribution to GDP is estimated to have risen from 15 percent in 1991 to 21 percent in 1992.

Nevertheless, Slovakia's economy is not as far advanced as other Northern Tier countries in two important respects: (a) the reorientation of exports towards Western markets, and (b) the privatization of industry, particularly large scale enterprises (See Privatization and Economic Transformation below).

Secondary arrears (primarily the SOE's) totalled approximately \$2 billion early in CY 1993. The arrears, and a Bankruptcy Law similar to that enacted in the Czech Republic, are a cause for uncertainty. There is concern about the ripple effect of bankruptcies (including the impact on otherwise healthy enterprises), on the consequences for the banking system, and on the environmental damages and liabilities created by bankrupt firms.

June 30, 1993

## **II. SLOVAKIA'S STRATEGIC OBJECTIVES**

### **A. Economic Policy Program**

The June 1992 electoral victory of the ruling HZDS government was based largely on a desire for a more equal partnership with the Czech Republic in determining economic policy and, in particular, the pace of economic reform. In the economic policy arena, the primary objections to perceived Czech dominance in Federal policies were:

- privatization was being implemented too rapidly, especially through the "mass privatization" program pushed by then Federal Finance Minister Klaus. This seemed to foretell further crushing cutbacks of production and employment in the heavy industries and defense production factories which are disproportionately concentrated in Slovakia;
- many of the "adjustment policies" pursued by the Czech-dominated Federation -- devaluation of the currency, and embargoes on exports of defense goods, for example -- were perceived as stacked against the Slovak economy; and
- Minister Klaus refused to borrow on international capital markets, which could have helped to finance a milder decline in living standards, as in Hungary. This would have been feasible because of Czechoslovakia's low international debt and high credit standing in international financial markets.

Unfortunately, to date the current GOS has not been able to articulate a more successful, alternative path in any of these areas. There is growing awareness in the GOS that reorientation of its policies toward more realistic goals is in order. This is particularly true in the case of privatization.

**1. Privatization and Economic Transformation** - In 1991-92, the Czech and Slovak Federal Republic was very successful in carrying out an ambitious privatization program which included "small privatization" and the first wave of "large-scale privatization." In Slovakia, ninety percent of small businesses changed ownership, either through restitution or being sold at auctions. Over 600 firms were privatized in Slovakia during the first wave, 500 of them through the voucher or coupon method.



June 30, 1993

In mid-1992, the GOS determined its most urgent requirement was to attract foreign capital, something the voucher method of privatization was not designed to do. GOS policy, therefore, was to shift away from "mass privatization" through vouchers and to stress alternative modes of privatization.

Essentially, the strategy was to entice foreign investors by advertising new tax holidays and by making public tenders or other competitive sales of companies.

Investor interest in such direct sales has been limited, although there have been recent sales of large, consumer-oriented companies, to foreign firms -- including a tobacco company, a brewery, and a chocolate factory. The U.S. is currently the third largest foreign investor (about \$50 million) after Germany and Austria, with K-Mart and Whirlpool being the largest U.S. investors.

Given an investment climate marked by uncertainty over, i.a., currency stability and a lack of clear and transparent rules of the game, there was a dismal response by investors to enterprises offered for sale.

The GOS has been widely criticized, both from within its ranks as well as from outside, for the slow pace of privatization. By late April 1993 key government officials and advisors appeared to favor increased emphasis of the voucher privatization method, with a "second wave" to be undertaken soon. Meanwhile, to contribute towards the workout of bad debts and to the restructuring of problem companies which cannot be privatized, the GOS has revised, and made effective, the Bankruptcy Law referred to above.

**2. Macroeconomic Policy Program** - In order to reestablish stability over the short and medium term, it will be necessary for the GOS to reach agreement with the IMF on a macroeconomic stabilization program. As part of the program, the GOS will need to:

- implement an exchange market policy which can be sustained without administrative restrictions (such as the current "external financing" requirement) on importers' access to foreign exchange;
- agree on a budget deficit which will not completely crowd out the availability of bank credit to the enterprise sector; and

June 30, 1993

- continue to cut back budget expenditures to adjust to a declining revenue base. Social safety net expenditures have been reduced. Other expenditures (of which the most important are in the health sector and housing) are being reduced or responsibility shifted to local authorities.

In the realm of official state borrowing from foreign banks and institutional investors, Slovakia hopes to be able to join Hungary and the Czech Republic as the only countries in Eastern Europe deemed creditworthy enough to obtain sovereign syndicated loans and bonds on the international credit markets.

However, the approach which the GOS has taken in negotiations with (a) the IMF (for a new standby arrangement), and, (b) the Czech Republic (over the division of joint assets and liabilities), has raised substantial concern among prospective international investors and lenders. They are none too sanguine about the intentions and capability of the GOS to introduce and maintain a stable, sound set of financial policies.

#### B. Democracy, Civil Liberties And Decentralization

Slovakia's stated constitutional expressions of democratic rule and freedom of expression leave little to be desired. The challenge is how to strengthen those elements in society which will protect and extend these rights to the citizenry as a whole. GOS strategic objectives recognize the linkage between a vibrant economy and a healthy, pluralistic democracy. The GOS also recognizes the close connection between diversity and pluralism on the one hand, and decentralizing power and decision making on the other.

Legislation now under consideration in Parliament further devolving power to regions is an important move in this direction. However, the decentralization process involves fundamental changes in behavior and attitude, which may well take a generation to root firmly. A healthy sign which supports the decentralization of authority is the newly-established Office of the Presidency. Since President Kovac took over the Presidency on March 2, 1993 he has shown an ability to make his office an independent institution. He is currently the most popular political figure in Slovakia.

### III. ROLE OF OTHER MAJOR DONORS AND LENDERS

A.I.D. coordinates all Support for Eastern European Democracy (SEED) Act-funded activities with other major donors and lenders in order to avoid duplication and to reinforce mutual objectives. Other major donors and lenders in Slovakia currently include the World Bank, the European Community (through its EC PHARE program), the European Bank for

June 30, 1993

Reconstruction and Development (EBRD), and the British Know-How Fund. The IMF, EBRD, and EC PHARE plan to open offices here in the near future.

A.I.D. was the first major donor to establish an office in Bratislava, in January 1992. The GOS, therefore, turned to the USG for much of its immediate technical assistance in formulating economic policies. We were quick to respond. While EC PHARE, and the EBRD have made substantial commitments to an independent Slovakia, their impact, in terms of assistance delivered, has been negligible to date.

EC PHARE, for example, has earmarked a total of 167 million ECU (1990-1992) largely for privatization, environment, and the financial sector. However, only a small percentage has reached the contract stage.

The World Bank is planning to focus its lending on economic restructuring and privatization, reform of specific sectors such as telecommunications, transport, and the environment. The \$450 million Structural Adjustment Loan to the CSFR was split in a 2:1 ratio with the last tranche of \$40 million disbursed in Slovakia as Balance of Payments support. The Bank has been hampered by the lack of an official counterpart as a Central Bank Governor has yet to be appointed. From a practical standpoint, it is unlikely disbursements on any of the loan projects noted above will be made before CY 1994.

Since Slovakia's independence, the EBRD has been the first multilateral donor to make new loan commitments, about \$100 million for telecommunications and highway projects. The absence of an office in Slovakia and cumbersome internal Bank procedures have held up disbursements. In April 1993, senior Bank officials reaffirmed their commitment to move rapidly on small enterprise development in Eastern Europe. We believe this is a key area where more donor support is highly appropriate.

The British Know-How Fund has a small, but active, office in Bratislava. They share many of the USG's priorities in capital markets development, bank training, and management training. They rely exclusively on short term assistance, however, which appears to limit the effectiveness of their activities.

#### **IV. PRIORITIES OF THE USG ASSISTANCE PROGRAM**

The Core Program has two principal elements:

June 30, 1993

- First Objective -- Transformation to a market economy, including privatization of State-owned assets, restructuring of major industry, and development of the financial sector. The latter involves strengthening key institutions and development of capital markets.
- Second Objective -- Bolster the forces which make for diversity and pluralism in Slovak society. A critical element, which we can assist with in tangible fashion, is continued progress in decentralizing decision making to elected officials.

In addition to the Core Program, we believe there is an important role for USG assistance in minimizing the human travail associated with the abrupt shift from a centrally-planned, command economy. Budget stringency has forced the GOS (in common with many other countries in the region) to make sharp cuts in social expenditures. Not only have benefits been reduced for most Slovak citizens, but eligibility requirements have been tightened.

The contraction of the social safety net comes at a time when disruptions stemming from transformation of the economy are most severe. In addressing this problem, we believe there are two areas in particular where the USG has a comparative advantage and where targeted USG support can make a critical difference: in the health sector and in housing allowances.

## **V. FIRST OBJECTIVE: TRANSFORMATION TO A MARKET ECONOMY**

### **A. Privatization and Economic Restructuring**

**1. Strengthening Key Ministries and Institutions** - To speed the transition to a more efficient market economy, the USG will provide assistance to key institutions which must restore and maintain financial and economic stability and insure a climate of open competition: the Ministry of Finance, the Ministry of Economy, the Ministry of Privatization, the Anti-Monopoly Office, and the Center for Strategic Studies.

- at the Ministry of Finance, we will continue a combination of long term and recurrent short term advisors to assist with the design and implementation of tax policies to stem the deterioration of revenue collection, and procedures to plan and execute budgetary expenditures in a more effective manner.
- at the Ministry of Economy (assuming the Ministry will continue to have broad responsibility for key economic policy functions, as well as responsibility for governance of the major SOE's), we will provide assistance in industrial policy

June 30, 1993

development, restructuring of enterprises, particularly in the energy, chemical and former armaments production sectors.

- at the Ministry of Privatization, we will assist in providing a small transaction unit for the review and preparation for tender of privatization proposals.
- at the Center for Strategic Studies (a new economic policy think tank of the GOS), we will help to identify and assess selected macro-economic policies and targets for Slovakia as a newly independent country.

**2. Creating the Legal and Regulatory Framework** - A second critical area is the need for a legal and regulatory framework which will facilitate and sustain the transformation. We will continue to support the Anti-Monopoly Office in revising and enforcing the competition laws and in identifying market-oriented, competitive solutions to the country's economic challenges. In addition, we will provide technical assistance to the Ministry of Environment in the enactment and enforcement of environmental liability legislation. The lack of a clear policy governing allocation of liability for past environmental damages and uncertainty concerning enforcement of air, water, and waste standards present significant obstacles to privatization and western investment.

The weak regulatory framework governing electricity, gas, water, and nuclear energy is a significant roadblock to investment and modernization. We will advise the GOS in its efforts to establish a regulatory agency responsible for economic and technical regulation of the power, gas, water, and telecommunications sectors. Once established, we could provide assistance in developing the necessary procedures and management systems. The objective would be to establish an independent regulatory agency capable of balancing the interests of consumers and those of commercial ventures.

**3. Restructuring the Power Sector** - The GOS is committed to an energy policy review encompassing energy demand and load management, supply and generation options (coal, gas, nuclear), environmental policy, and impacts on the economy. As a first step, we will assist in consideration of the trade-offs (including joint stock company or separate transmission, distribution, and generation enterprises) between various options for restructuring of the power sector. Restructuring is essential to attract foreign capital and facilitate privatization; however, it can be expected to take time.

The Slovak economy consumes three times the energy per unit of output and produces 15 times the emission levels compared with Western Europe averages. Both the Ministry of Economy and the Slovak Energy Agency (SEP) agree that significant improvements in

June 30, 1993

energy efficiency are critical to the country's strategic goals, particularly membership in the EC. We intend to join with the State Energy Agency in a program to establish incentives for improved energy management by enterprises and to speed up the expansion of energy service companies and equipment.

We will participate in a multinational and international effort to reduce the hazards of operating two older design Soviet nuclear reactors, source of 50 per cent of the country's electrical energy. This includes technical assistance, safety equipment, and advice on developing an effective Slovak Nuclear Regulatory Commission.

**4. Restructuring Major Industries** - By virtue of their size, and importance as employers in the communities in which they are located, major industries -- primarily former armaments plants, metallurgical and chemical enterprises -- will require significant help to restructure. We intend to initiate a multi-year program of assistance to at least two former armaments production enterprises. U.S. financed consultants will work with company management to develop business plans which identify new markets and sources of technology. The objective is to transform all or part of the firms selected into commercially viable producers for the civilian sector.

**5. Facilitating the Expansion and Improving the Management of Small and Medium-Size Enterprises** - For medium and small scale enterprises we will continue to make available technical assistance in management, valuation, marketing, modern accounting practice, and process and quality control. The criteria for selecting the enterprises to be assisted are based on the capability and interest of the firm's management, and the likely demand for the firm's product.

The Slovak American Enterprise Fund will continue its program of loan/equity investments in small and medium enterprises. Currently the critical link which is missing is at the policy level. Based on OAR Warsaw's experience, we would like to adapt the GEMINI project concept to Slovakia's needs and provide long term technical assistance to the Economic Council.

**6. Reducing Environmental Hazards** - The USG will help establish the rules and structure governing use of the Environmental Revolving Fund. Municipalities will be encouraged to establish rates for wastewater treatment services which cover operating, maintenance, and capital costs. Assistance will be provided enterprises to meet the country's relatively stringent environmental standards by the deadline of 1997. Lastly, USG will continue efforts to help establish an institutional network responsible for controlling pollution in the Danube River Basin.

June 30, 1993

**7. Restructuring Agriculture -** Privatization of land and other agricultural assets is closely tied to restructuring and private enterprise objectives in the industrial sector. There has been little progress to date in the "second wave" sale of state owned farms, collectives, and food processing firms. This appears to be largely due to a severe financial crunch stemming from a significant reduction in agricultural subsidies, a drop in consumer purchasing power and demand, and the threat of insolvency for a majority of farms and enterprises under the new Bankruptcy Law.

The Ministry of Agriculture (MOA), through its approval of loans to cooperatives and state farms, is a major holder of agricultural debt. The MOA has requested U.S. long term technical assistance in restructuring that debt and in establishing new credit policies which support a healthy, privatized sector. We think this makes sense. We endorse this request, as well as continuation of assistance to private dairy farmers, cooperatives, and food processors in management, production, and marketing -- as these are areas in which Slovakia may enjoy a comparative advantage vis-a-vis neighboring countries.

**8. Providing Management Education/Training and Participant Training -** There is an extreme paucity of managers with the experience and training necessary to function in a decentralized, market economy. There is no tradition of individuals accepting responsibility and taking decisions. Restructuring of the economy and development of a vibrant private sector require certain requisite skills. We believe an MBA program, modelled on the US system, and solidly based on a long term relationship between a US and local consortium, is a sound approach to meet this need. The premier institution involved in economics education here is the Economics University. Its 7,000 students are studying a curriculum which is basically unchanged since before the revolution. The Economics University has asked for our help in reforming the curriculum and in establishing a US style MBA program.

USG assistance in this area will help strengthen the linkage between economic restructuring and democratic pluralism objectives. The managers educated under this program will help meet an essential need in the transformation of the economy. At the same time, US MBA study will acquaint Slovak students with American values and hands-on, practical ways of solving problems.

Concurrently, there is a critical need for short term management training. We have examined an ongoing program (with a U.S. university connection) and are favorably impressed. Its graduates appear to be in demand and it is sensibly managed. This, too, should receive USG support over the next two years.

June 30, 1993

Participant training is the final, necessary component to meet our education and training objectives. After reviewing across-the-board needs in a range of Slovak institutions, we have identified financial sector training as one in which there is a dire need. We also intend to support a program where Slovak company employees gain on-the-job experience in comparable US firms.

#### **B. Development Of The Financial Sector**

**1. Strengthening Institutions** - The objective is to assist in improving the management and policy making capabilities of the Central Bank, as well as the efficiency and productivity of the major financial institutions in the country. We will assist with strengthening the Central Bank, which must: (a) establish Slovakia's commitment to monetary discipline and low rates of inflation; (b) build an effective system of bank supervision; and (c) help engineer a plan for restored viability of the state-owned banks still plagued by delinquent loans to the SOE's.

**2. Providing Bank Training** - In recognition of the critical role of efficient bank management in the transformation of the economy, we will support the National Bank of Slovakia's Institute of Banking Education in its efforts to train commercial bankers.

**3. Strengthening Commercial Banks** - We intend to concentrate on developing: (a) the skills and effectiveness of the commercial banks' workout capability for restructuring bad loans to the enterprise sector; and (b) improved lending practices toward private sector agencies.

**4. Developing Capital Markets** - We will help to establish the regulatory framework, a necessary precondition to sound capital markets. We also plan to provide training on enforcement of the Bankruptcy Law as well as advice on taxes which impact on capital markets, on government debt offerings, and on administrative procedures for the Ministry of Finance. Finally, we will assist in developing a municipal credit system for essential urban infrastructure.

#### **VI. SECOND OBJECTIVE: STRENGTHEN PLURALISM AND DECENTRALIZATION OF DECISION-MAKING**

##### **A. Reinforce Diversity And Independence In The Media, Judiciary, Parliament, And Non Governmental Organizations (NGOs)**

**1. The Media** - Our goal is to root Slovakia firmly in the Western tradition of pluralism, individual freedom, and democracy. We will continue to actively encourage, at the national



June 30, 1993

policy making level, a culture where dissent is accepted. The GOS needs sustained, positive reinforcement for actions and policies which strengthen diversity.

While the new Slovak Constitution guarantees freedom of information and the right of expression, the January 1993 Human Rights Report for the CSFR notes several instances of Government backsliding. For example, an appeal was made to journalists to exercise "ethical self-regulation," the Chairman of the TV Board was dismissed on questionable grounds of incompetence, and the Government continues to control the supply of newsprint.

We intend to continue to encourage diversity of opinion in media through the Independent Media Fund (IMF), which will provide radio and publishing equipment for selected independent papers and stations throughout the country. The IMF will also support the recently established Center for Independent Journalism and the Independent Broadcasters Association.

In addition, we will explore the feasibility of supporting alternative transmission facilities (a privately held channel, perhaps) and competitive newspaper printing and distribution channels. Lastly, we recognize the importance of exposing the next generation of journalists to the values of a free press through training, study tours abroad, and in-country workshops.

**2. The Judiciary** - Under the Slovak Constitution judges are given lifetime tenure, but only after a four year probation period. Wages are low (there are a substantial number of unfilled vacant positions) and promotion, merit raises and disciplinary procedures are in the hands of the Ministry of Justice. A new Association of Slovak Judges has been formed which has made contact with the Council of Europe and with A.I.D. While we intend to assist the Association, their most productive ties will most likely be with the more similar legal systems of Western Europe.

The new Constitutional Court will have a major impact on adjudicating human rights cases and in insuring government officials at all levels keep their activities within constitutional bounds. We have had preliminary discussions with Court officials and will explore ways in which the USG may be of assistance to the Court in carrying out its mandate.

We also intend to examine the feasibility of strengthening legal education by providing long-term assistance to law schools. Finally, we have received proposals to bolster civic education, beginning at the primary level and extending through University teacher training institutions.

June 30, 1993

**3. Parliament and Political Parties** - We would hope to be able to work directly with the Slovak Parliament. The objective would be to solidify relations between the majority and minority coalitions and diminish the current, pervasive "winner take all" philosophy. Another possibility would be to provide expertise in economic, judicial, or health sector reform to the Parliamentary committees involved with the USG assistance program.

We have found strong interest in building up Parliament's research and information capability. This has the potential of reinforcing loyalty to Parliament itself, a worthwhile objective. We intend to continue to support efforts along this line, and, at the same time, remain open to other initiatives suggested above.

**4. Non-Governmental Organizations** - We believe the role NGOs play in building a civil society outside government can not be emphasized enough. A vibrant NGO community, particularly outside of Bratislava, is critical in decentralizing power and deepening democratic attitudes and values. We will seek opportunities to find and/or nurture new indigenous NGOs and strengthen existing ones.

#### B. Support The Shift Of Decision-Making To Regions And Municipalities

Empowering mayors and other locally elected officials - While the specifics of legislation now being considered by Parliament have not yet been decided, the main thrust will be to give local communities more power over badly needed infrastructure investments. This is in line with the Ministry of Finance's commitment to decentralize decision-making and get as much off budget as possible.

The April 1993 meeting of the Association of Towns and Communities marks a step in this direction. Under new leadership, the Association is committed to making a strong case for regional and municipal control over tax revenue, and over decisions on infrastructure and municipal services. The Association promises to be an important force in the move toward decentralization; we will consider ways in which USG support could enhance their effectiveness.

Municipal governments do not now have the capacity to formulate projects and evaluate alternative methods and sources of city services. We envisage technical assistance in this area to complement domestic or external funding. Currently, mayors, even dynamic and forward looking ones, are unable to generate the resources to carry out the will of their citizens. In large part this stems from the inability of municipalities to capitalize the income stream from municipal revenue. For example, one year's income from a municipal property

June 30, 1993

tax, completely dedicated to the city budget, is not enough to build or modernize a wastewater treatment system. Long term credits are not now available.

A capital assistance component could enhance the technical assistance program and be helpful in moving policy change along. However, unless the credit situation changes enough for the USG to consider a Housing Guarantee program, we should make serious efforts to engage other potential donors, such as the World Bank or EBRD, in discussing a capital assistance complement to the AID technical assistance program in this area. Lastly, we intend to continue support of a promising initiative which encourages communities to take responsibility for the solution of their problems. The approach is to hold workshops which stress community leadership, drawing on local bankers, entrepreneurs and elected officials to formulate restructuring options specific to that locality. For this to be successful, it needs to be closely tied in with potential resources.

## **VII. SOCIAL SAFETY NET TARGETS**

There are two components of the social safety net -- health care and housing -- which most Slovak citizens would consider extremely important to the well-being of their extended family. USG technical advice can make a difference in both areas.

### **A. Health**

GOS allocations to hospitals, clinics, and other facilities in the first quarter of 1993 were not sufficient to meet many institutions' expenditures for wages, drugs, and other essential costs. This comes at a time when, according to a March 1993 World Bank study, the health status of the Slovak population is one of the worst in Europe and declining. A sedentary lifestyle, poor diet and environmental hazards are contributing factors.

In 1990 a reform plan was approved aimed at privatization, decentralization, and creation of a viable insurance health financing system. A.I.D. supported reform because diversity in health care is a critical element in freedom of choice. There are also strong economic arguments for reforming the system: 10 per cent of the budget is allocated to health care, and illness and disability in the working population are a drag on economic growth. Further, a vibrant health sector can be an important stimulus to job creation and economic expansion.

For the time being, the GOS has put reform on hold. There are interventions, however, where USG support can make a difference. We intend to assist in management training of

June 30, 1993

hospital directors and in the licensing of physicians. There is also merit in continuing limited support in women's health care as the issues being addressed represent long overdue changes in doctors' attitudes towards women patients. Finally, we would like to be of assistance to a recently established Crisis Committee, charged by the Deputy Prime Minister to find practical solutions to the rapid deterioration in the health care system.

#### **B. Housing Allowances**

Privatization of state owned housing cannot be accomplished if rents are substantially under market rates, the situation which obtains in much of the country. In order to raise the rents, low income tenants require some kind of allowance to avoid serious hardship. The GOS has requested policy advice on how to institute a targeted system of allowances as part of their housing privatization strategy. We believe this constitutes an appropriate role for AID and, one which is likely to accelerate the sale of state-owned housing.

#### **VIII. PARAMETERS OF THE PROGRAM**

The parameters of the assistance program are expected to be as follows:

- Phase out of assistance can be expected to be slower than projections for Poland, Hungary, and the Czech Republic, where implementation of political and economic reforms appear to be more advanced. As the Prime Minister said recently, "Slovakia is at a crossroads. Slovakia can go the road of Switzerland or that of Romania." Based on our assessment of Slovakia's needs and the pace of change, we assume there is a critical role for the USG here for the next 5-7 years.
- The \$47 million program in Slovakia (through FY 1992) is largely needs based. The Country Team feels very strongly this is the only approach to take in Slovakia. Staff of the Office of the A.I.D. Representative engage intensively in assuring appropriate matches are made between client and advisor so tax dollars are well spent.
- Insofar as possible, we intend to shift more of our resources outside traditional government-to-government channels, especially in the Democratic Pluralism portfolio. In this area we will assist nascent NGO's and other institutions, as appropriate.
- Our goal is relatively larger projects with fewer Contractors, Grantees, and Volunteer organizations. This will allow us to better monitor the activities in our portfolio.

June 30, 1993

- In a spatial sense, the strategy seeks to ensure that USG resources are made available outside the capital city of Bratislava, and where appropriate, in communities with high concentration of Hungarian and Romany population, as well as in areas of high unemployment.
- To the maximum extent feasible, we will rely on long term technical advisors, carefully placed in strategic Ministries/organizations, backed up by short term advisors and strong home office support, all mutually agreed with the counterpart agency. Our experience over the past year convinces us this is the most responsive method of delivering technical assistance in this environment.

We assume the USG program will continue to be regional in nature, with Mission management in Washington and relatively small representative offices overseas. However, the existing SEP designation for Embassy Bratislava limits the expansion of the assistance program. With only two USDH officers at post, A.I.D. cannot provide the managerial oversight and coordination stipulated in the legislative mandate of the FY 93 Foreign Operations Appropriation Act.

For comparison purposes, approximately \$70 million has been obligated in the Czech Republic through FY 1992 and it is monitored by 5 USDH. While part of the oversight in Slovakia can be handled by increasing FSN and PSC staff, there are limits to this approach. This is one of the critical issues facing the USG assistance program in Slovakia and early resolution is necessary.

Finally, we would like to emphasize the importance we attach to coordination of all SEED Act Contractor, Grantee, and Volunteer efforts, as well as other USG programs in Slovakia. USIS support of English teaching reinforces pluralism goals and is a critical building block to other initiatives. There is a close match between Peace Corps priorities -- English teaching, assistance in the environment sector, and small enterprise development -- and the core USG program. PC volunteers serve to extend the reach and enhance the impact of our activities at relatively low cost. We intend to work closely with Peace Corps to examine how the placement and support of volunteers can be accomplished to mutual benefit.

ANNEXES: Completed sectoral strategies are available at EUR/RME/ECA/NT/Slovakia Desk on the following sectors: Democratic Pluralism, Health, Agriculture, Environment, Management Education and Training.

June 30, 1993

Additional information contact:

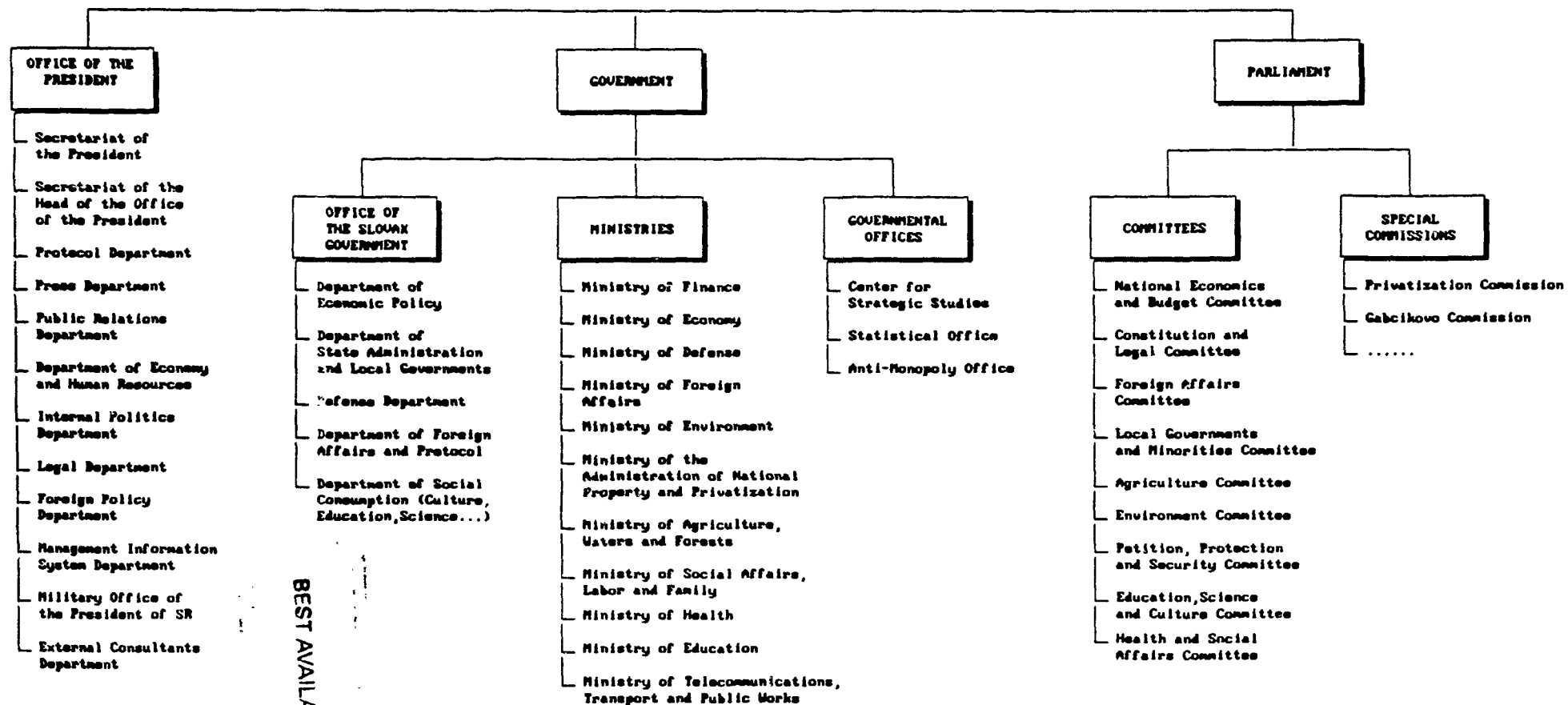
American Embassy Bratislava  
Office of the A.I.D. Representative  
Panska ulica 33  
811 02 Bratislava

Office: 42-7-330-667  
FAX: 42-7-334-711

Agency for International Development  
320 21st Street, N.W.  
Slovakia Desk, EUR/RME/ECA/NT, Rm. 6752 NS  
Washington, D.C. 20523-0069

Office: (202) 647-7082  
FAX: (202) 647-5560

# SLOVAK STATE ADMINISTRATION



BEST AVAILABLE COPY

OUR SLOVAKIA  
JUNE 1993